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SUBJECT: Troubled GM/Opel Signals Further Cutbacks as CEO Forster Moves On

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11. (SBU) SUMMARY: GM recently shuffled top management at European subsidiary Opel (based in Ruesselsheim outside Frankfurt) amid continued weak consumer demand within the flagging German economy. Effective July 1, Opel CEO Carl-Peter Forster became President and Deputy Chairman of GM Europe, charged with restructuring affiliates Opel, Saab, and Vauxhall (Opel board member Hans Demant replaced Forster as Opel CEO). GM's European headquarters will assume direct management of subsidiaries and streamline production. Continued losses at Opel stem from a half-decade of stagnant demand in Germany, where new car registrations are one-fifth below the 1999 level. Opel's experience is not unique -- sales in Germany (across various automakers) continue to decline -- but Opel is uniquely dependent on the European and especially German markets since it cannot compete with GM models in many places outside Europe. END SUMMARY.

12. (U) As GM's main mass-market brand in Europe, Opel accounts for about four-fifths of GM's revenues -- and net losses -- in Europe. Forster, who joined Opel in 2001, enjoyed early success in increasing Opel's German market share from nine to almost 11 percent but was unable to cut costs enough to make the troubled automaker profitable. The year 2003 -- predicted to be Opel's turnaround year -- was a particular disappointment as Opel posted a fifth year of losses (EUR 384 million on falling sales of EUR 14.1 billion). Forster reacted by cutting production of the Vectra and Signum models by 60,000 units and by reducing working hours for assembly-line employees from 35 to 30 hours. In a meeting with the Consul General (reftel), Forster cited political mismanagement of the German economy and high labor costs as factors spurring Opel and its suppliers to move more production to Eastern Europe. GM leadership recently announced that the R&D center in Ruesselsheim will play a leading role within GM Europe, but made no guarantees about manufacturing in Germany.

13. (U) At GM's European headquarters in Zurich, Forster will oversee Opel, Saab, and Vauxhall. GM Europe -- until now primarily a holding company -- will have day-to-day oversight of GM's subsidiaries. New Opel CEO Demant (and the heads of Saab and Vauxhall) will report directly to Forster. The restructuring comes at a time of continued weak demand for cars in Germany: the VDA (German automaker association) announced July 5 that new car sales in Germany for the first half of 2004 fell 1% year-on-year (versus an increase of 3% for Europe as a whole). This marks a fifth year of stagnation (new car registrations in Germany remain 19% below the 1999 level).

14. (U) Opel Works Council head Klaus Franz (representing Opel's 32,000 employees in Germany) expressed concern that Opel will lose autonomy under the new management structure. Labor sharply criticized the decision to produce the new Zafira model at Opel's plant in Poland. Opel will however shift production of 22,000 Vectras from the UK (Ellesmere plant) to Ruesselsheim, a consolidation measure. Forster and GM Europe emphasize that tighter brand integration -- including more shared platforms and components -- will bring new opportunities for Opel: in the near future, for instance, Opel could assemble Saab or Cadillac models in Germany.

15. (SBU) COMMENT: Despite years of concerted efforts to lower costs at Opel, the company is still in the red. Unlike other automakers, Opel cannot compete with parent GM in many overseas growth markets -- above all China and the United States -- so it cannot paper over its European losses with export gains overseas. Barring a dramatic turnaround in Germany's domestic economy or far-reaching labor market reforms, however, Opel has a long tough road ahead. END COMMENT.

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